

The Statement of
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President and CEO of Maersk Line, Limited
before the
Subcommittee on Coast Guard and Maritime Transportation
Committee on Transportation & Infrastructure
U. S. House of Representatives
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Mr. Chairman and Members of the Committee, I am John Reinhart, President and CEO of Maersk Line, Limited (“MLL”), a U.S. company based in Norfolk, Virginia. We provide U.S. flag transportation, ship management and technical services to government and commercial customers. Our company is managed by U.S. citizens, employs thousands of U.S. merchant mariners and over 200 shore side personnel, pays U.S. taxes, and is one of the largest owners and operators of U.S.-flag ships. We are part of the A.P. Moller-Maersk Group, an international transportation and energy company.

I appreciate the opportunity to testify before you today about the state of the U.S. merchant marine operating in international commerce, and applaud the Committee for its commitment to a strong U.S. merchant marine, which is critical to both U.S. economic and national security. I look forward to working with the Committee on issues affecting the competitiveness of U.S.-flag ships.

The A.P. Moller-Maersk Group has had a presence in the U.S. and U.S. international trade for more than 90 years, and our company or its predecessor U.S. entities have been partners with America supporting the military in protecting U.S. interests around the globe for more than 50 years. Our core businesses include not only U.S.-flag transportation services that offer flexible and reliable end-to-end transport for our commercial and government customers, but also world-class maritime technical services and ship management and chartering services (including operating noncombatant ships for the U.S. government). Our employees hold some of the highest level security clearances from the U.S. government, and through our core businesses, have participated in classified or top secret programs for the Department of Defense. Our commercial and government customers rely on our experience, maritime expertise and global intermodal capability.

As your committee knows, the global maritime industry – like many other industries -- has faced unprecedented economic challenges in the wake of the global economic recession of the past two years. Notwithstanding the severe economic downturn and its impacts on our commercial business, MLL has continued to provide critical services to the U.S. government, including carrying military cargoes supporting the wars in Iraq and Afghanistan and humanitarian aid cargoes to Africa. As a result of a U.S. government and industry partnership, MLL has maintained - and in many areas even enhanced - our U.S.-flag fleet and its capabilities to support this nation’s commitments around the globe.

The success of our business is based on our ability to provide competitive international transportation services to our customers. But the foundation of our U.S.-flag business is the U.S. laws and policies designed to ensure a strong and economically viable U.S.-flag merchant marine for national defense and economic security—the Maritime Security Act (which authorized the Maritime Security Program), cargo preference laws, a tonnage tax regime, and other U.S.-flag programs that Congress has

enacted. These programs have allowed our company to invest in and grow our contributions to the nation's sealift requirements. Here are a few quick highlights:

- We own, operate, or charter 33 vessels that are enrolled in government sealift readiness programs like VISA (Voluntary Intermodal Sealift Agreement), compared to just 4 vessels 10 years ago.
- We have modernized nearly our entire U.S.-flag fleet, investing \$1.6B in U.S.-flag tonnage in just the last 10 years, including \$400 million in 2009 and \$320 million in chartered assets over the past two years.
- We have the flexibility to accommodate DOD requirements for Sealift capacity in several different areas of international trade, with 24 container vessels, recent additions of four (4) roll-on/roll-off vessels, and three tankers in our U.S.-flag fleet.
- Since 2008 MLL has added seven additional vessels to U.S.-flag fleet, creating more than 240 new American mariner billets and putting more than 600 U.S. citizen mariners to work.
- We were recently awarded a contract to manage 10 prepositioning ships for the Military Sealift Command.
- We train more than 200 cadets and unlicensed apprentices each year on our vessels.

The programs that Congress has enacted to support the U.S.-flag are working for the government and the industry, and must be supported and maintained to ensure the future of a privately-owned, commercially-viable U.S.-flag fleet. One fact that demonstrates the success of these programs is that U.S.-flag vessels engaged in foreign commerce between 2002 and 2006 carried almost 60 percent of the cargo to support the wars in Iraq and Afghanistan. Recently, almost all support cargo has been carried into the war theaters by these vessels -- compared to carrying about 21 percent of the cargo in support of Desert Shield and Desert Storm.

As your Committee considers how to further strengthen the U.S.-flag merchant marine in foreign commerce, please remember that it is not just ocean transportation that both government and commercial shippers demand. Customers want to book and move cargo door-to-door seamlessly from any point in the world to any other point in the world. Customers expect and demand global expertise and infrastructure. Customers expect and demand modern assets and business practices. So the expertise in supply chain management and global logistics that are a part of our DNA and accessible through our sister companies such as Maersk Line, Maersk Tankers, DAMCO and Hoegh Autoliners are of critical importance and value to our U.S. government customers, and particularly the U.S. military, as well as our commercial customers.

Let me give you some real-world detail: we deliver military cargoes in the harshest of environments, including Afghanistan, with 'end to end' service directly to the military's forward operating bases. U.S.-flag carriers with international capabilities and global networks have answered the call to create other gateways to allow military and relief cargoes to move thousands of miles over land through Latvia, Russia, Uzbekistan as well as Georgia, Armenia, and Azerbaijan in addition to the primary gateway of Pakistan. The Department of Defense and the U.S. Transportation Command, the logistics arm of the U.S. Department of Defense, continue to rely on the service we are providing our warfighters. In fact, when required, we have figured out a way to provide satellite tracking every 30 minutes on containers and equipment in Afghanistan to support the warfighter's need to know where materiel is in theatre, a capability we have created specifically for the U.S. military.

As an American company and as American citizens, we are proud of our service to the nation, and recognize that our U.S. government services are a key part of our business. But our U.S.-flag vessels carry much more cargo for commercial customers, such as Wal-Mart and Target stores, than

U.S. government cargoes. Because we utilize commercial services to support both commercial and government customers, the U.S. government is able to procure our services to meet national defense sealift needs at costs far less than what it would cost the Government to maintain a dedicated organic fleet of vessels and supporting infrastructure to replicate those same services. The commercial business is highly competitive, with transportation decisions in foreign commerce still largely based on price. It is more costly to operate vessels under U.S. registry than under the registries of many other nations, which is one reason why less than 5 percent of the seaborne U.S. foreign commerce moves on U.S.-flag vessels. Even very slight differentials in cost affect the sustainability of our U.S.-flag business. Again, that's why the integrated, inter-related programs that support the U.S.-Flag fleet are so important. Take away any one of the programs that Congress has enacted – MSP, Cargo Preference, Tonnage Tax, etc. – and the platform fails. It simply cannot withstand the weight of costs in the U.S. system versus the cost structure of international registries. We thank the Committee for its unwavering support for these programs and strongly urge your continued vigilance in supporting and improving them so that we can maintain a U.S.-flag fleet to meet U.S. economic and national security needs. I cannot stress this point enough.

We need to avoid complacency because there is more that can and should be done to strengthen the U.S.-flag fleet, especially as it pertains to controlling and offsetting the higher costs associated with operating under U.S. registry.

There are many remaining opportunities to reduce the gap between U.S.-flag and foreign flag operating costs, starting with harmonizing U.S. regulations with international standards. There is a significant operating cost differential in the complexity of complying with U.S. federal and local regulations that are different than international standards. All merchant vessels that call the United States must comply with international standards. However, U.S.-flag vessels calling the United States often must comply with different standards than foreign flag competitors, reducing U.S.-flag competitiveness in international markets. Exacerbating the problem is an increase in state regulation of merchant vessels, particularly with respect to environmental issues. We would urge the Committee to closely examine the increasing burden on U.S.-flag operators, and work with the industry to find ways to more closely align U.S. and international standards to achieve uniformity, thereby reducing the adverse competitive impacts on U.S.-flag operators.

As for cargo development, opportunities clearly exist to increase the U.S. merchant fleet. For instance, we are excited about potential opportunities for growth in the energy sector. Sustaining and maintaining the Strategic Petroleum Reserve could be structured to create demand for a number of additional U.S.-flag tankers when and if that program ramps up. Similarly, the opportunity for LNG distribution and wind services also holds potential for growth of the U.S. fleet. While recognizing future opportunities, we would like to offer a word of caution: without the solid foundation of U.S. laws and policies supporting a U.S.-flag fleet, the ability of those vessels to compete in the international trades will not be sustainable. Therefore, we need to ensure that the letter, spirit and intent of cargo preference laws are being met and that Congress continues to support the Maritime Security Program.

In closing, let me reiterate our company's commitment to our nation's sealift requirements and the honor it is to serve. Everyday our colleagues, mariners and partners feel pride and satisfaction in helping our government fulfill its missions. We are proud to be a part of the U.S. merchant marine and we stand ready to work with Congress, the Administration, the military and the agencies to find new ways to support our mutual goal of ensuring a viable U.S.-flag merchant marine in the international trades to support U.S. economic and national security.

I look forward to your questions.